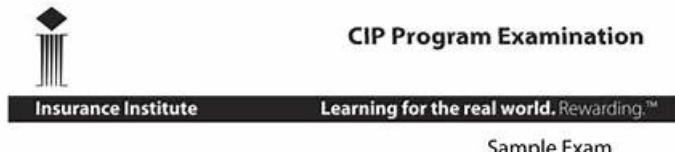


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C11 Principles and Practice of Insurance

IMPORTANT

The time allowed for this exam is 3 hours.

Total marks: 200

You must hand in this paper and any paper used for rough work to the supervisor when you leave the examination room. Failure to do so may result in disqualification.

Section A: Multiple-Choice Questions

Question 1. For the following multiple-choice questions, fill in the circle of the letter that identifies the most correct answer.

Example:

DO NOT MARK THE ANSWERS ON THESE PAGES.
USE THE FIRST PAGE OF YOUR ANSWER BOOK.

1. Insurance was developed as a result of the existence of
(A) hazards.
(B) indemnity.
(C) loss.
(D) risk.

Page 1 of 9

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IIC Principles and Practice of Insurance Sample Questions (Q32-Q37):

NEW QUESTION # 32

Karl recently purchased a house in Winnipeg. Prior to the purchase he asked if the house had termites. The house was infested, but the seller falsely stated there were none. After signing the contract, Karl discovered the infestation. Which element makes the purchase contract voidable?

- A. Mistake about assumptions
- B. Undue influence
- C. **Fraudulent misrepresentation**
- D. Innocent misrepresentation

Answer: C

Explanation:

A contract becomes voidable when one party is induced to enter it through fraudulent misrepresentation.

Fraudulent misrepresentation occurs when a party knowingly makes a false statement, intending to mislead the other party, and the misled party relies on that statement when entering the contract. In this scenario, the seller knew the house had termites but intentionally misrepresented the truth when questioned by Karl. This is a deliberate falsehood, fulfilling all elements of fraud: false representation, knowledge of falsity, intent to induce reliance, actual reliance, and resulting detriment.

Undue influence involves pressure or dominance, which is not present. A mistake about assumptions only applies when both parties are mistaken in good faith about a fundamental fact—here the seller acted deliberately. Innocent misrepresentation involves an unintentional error, but the scenario explicitly describes intentional deception. Thus, the correct legal classification is fraudulent misrepresentation.

NEW QUESTION # 33

Which financial outcome would be expected when engaging in a speculative risk?

- A. **Possibility of either gain or loss**
- B. No possibility of loss
- C. No possibility of gain
- D. Possibility of gain only

Answer: A

Explanation:

In insurance terminology, a speculative risk is a situation where there is a possibility of either financial gain or financial loss, depending on how events unfold. This is what makes it different from a pure risk, where the only possible outcomes are loss or no loss (but never a profit). Examples of speculative risk include investing in the stock market, starting a business, or buying foreign currency. In each of these situations, you may end up with a profit, break even, or suffer a loss.

Because speculative risks involve the potential for profit, they are generally not insurable. Insurance is designed to respond to pure risks, such as the risk of fire damaging a building, or a car accident causing injury or property damage. In those cases, there is no opportunity for financial gain from the event itself—only the chance of economic loss or no loss at all.

Therefore, the defining characteristic of speculative risk, and the correct answer to this question, is the possibility of either gain or loss, which is captured by option D.

NEW QUESTION # 34

How do insurers try to balance premiums against the losses they might have?

- A. Through specializing in one or two kinds of risk
- B. Through insuring a small number of superior risks
- C. By writing as much business in one location as possible
- D. **By having a good spread of risk**

Answer: D

Explanation:

Insurers must ensure they collect enough premium to cover potential losses while remaining competitive. One of the most important methods is maintaining a good spread of risk—diversifying exposures across different geographical areas, classes of business, and types of insureds. This spreads the impact of losses, reducing the chance that a single catastrophic event or concentration of similar risks will threaten the insurer's financial stability.

Option B, specialization, increases dependence on a narrow market segment and may elevate risk volatility. Option C is unrealistic because insurers cannot rely solely on "superior risks," nor can they guarantee such a selection. Option D-concentrating business in one location-is dangerous because natural disasters, economic downturns, or localized events could cause severe aggregated losses.

Thus, insurers most effectively manage loss volatility through A: a good spread of risk.

NEW QUESTION # 35

An insurer writes a \$60,000,000 risk for a premium of \$30,000. Using pro rata reinsurance, it transfers 25% of the risk to the reinsurer. The risk then suffers a \$100,000 loss. How much does the reinsurer contribute to this loss?

- A. \$60,000
- B. **\$25,000**
- C. \$75,000
- D. \$100,000

Answer: B

Explanation:

In pro rata (proportional) reinsurance, the reinsurer assumes a fixed percentage of both the risk and the premium, and in return pays the same percentage of any losses. Here, the insurer cedes 25% of the risk to the reinsurer. Therefore, the reinsurer must contribute 25% of any loss that occurs on that policy.

The loss amount is \$100,000.

Reinsurer's share = $25\% \times \$100,000 = \$25,000$.

The insurer retains the remaining 75%, or \$75,000. Proportional reinsurance helps insurers manage exposure by sharing both costs and losses. Options B, C, and D do not correctly reflect proportional-sharing principles.

The reinsurer does not pay the full loss; it only pays its agreed percentage.

Thus, the correct answer is A: \$25,000.

NEW QUESTION # 36

What is stated in the insuring agreements of a policy?

- A. Premium
- B. Signature clause
- C. **Description of the property covered**
- D. Lienholder

Answer: C

NEW QUESTION # 37

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